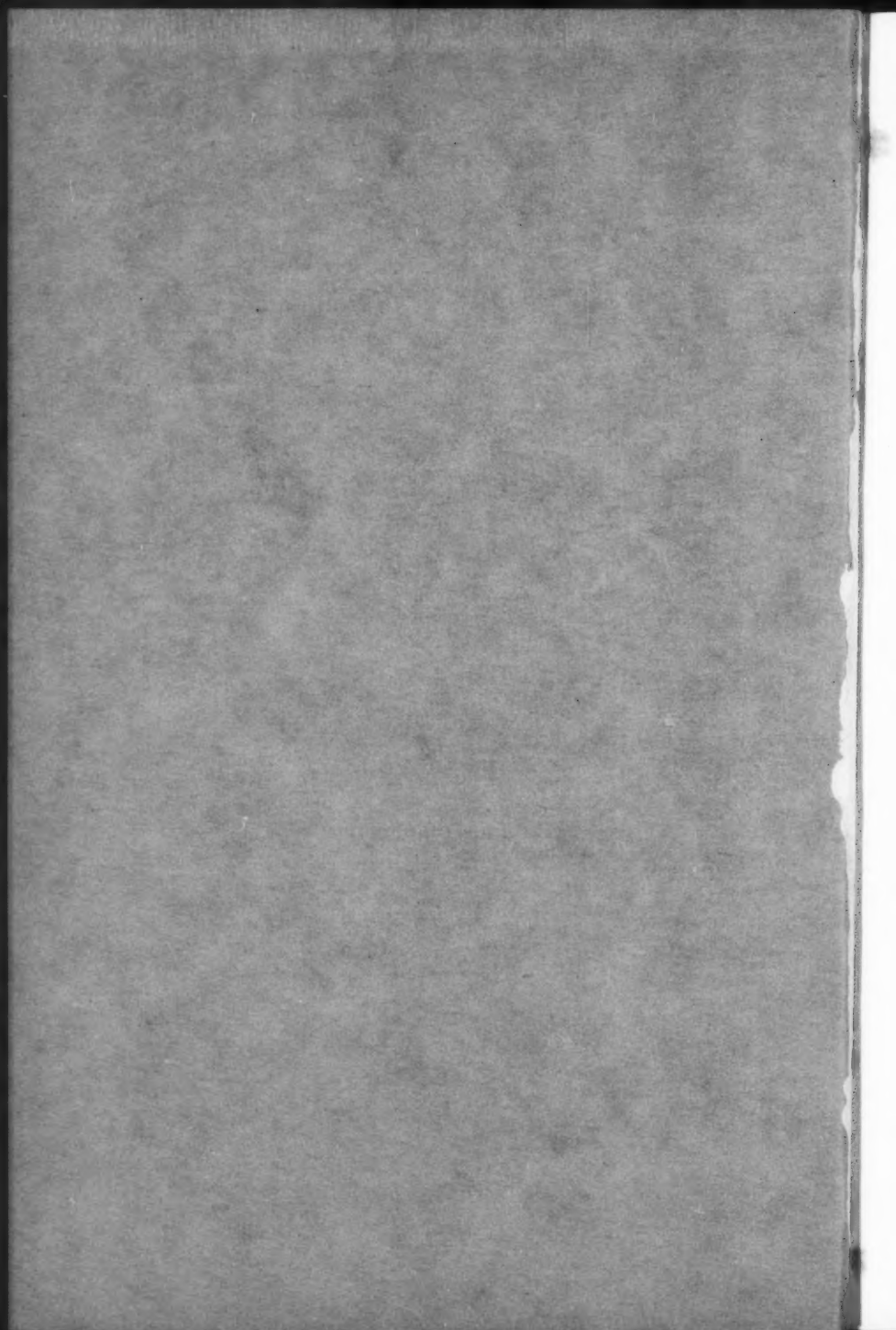


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The Certified Audit*

The importance of having financial statements audited by Certified Public Accountants is being recognized more and more each year by both business men and bankers. An intelligent audit should be of direct benefit in the operation of a company's business through the detection of inordinate expense, waste, errors and fraud, and the introduction of speedier and more economical methods. The management should look upon the audit as a productive investment. Furthermore, a balance sheet certified to without qualification by accountants of ability and high standing is a strong confirmation of good credit standing, particularly when the management is not personally known. Many note-buying banks refuse to purchase the obligations of companies whose statements are not audited.

The value of an audit depends upon the quality and scope of the examination made by the accountants. Care should be used in the choice of accountants. There are a number of firms whose work and reputations are known generally to banks throughout the country; there are also many small firms and individuals highly regarded in their own localities who are capable of doing good work. There are other accountants whose certificates, because of careless and incomplete methods, weaken rather than strengthen the value of a report when used for credit

purposes. The standing of accounting firms can easily be ascertained through interested bankers.

The work of accountants should not be unduly restricted. The scope of their examination should be such that they can give an unqualified certification. This is especially true in regard to the certification of and responsibility for inventories. The business man may well discuss with the accountant the proper verification of inventories before the audit is undertaken. A qualified certificate indicating that the accountant has not had free scope in his examination may do injustice to the borrower out of all proportion to the additional expense necessary to prepare a complete report.

An audit limited to an examination of cash, receivables and payables and a checking of the footings and postings of the books may have a certain value to the management. A statement, however, in which a major item has not been substantiated can hardly be accepted unreservedly by those on the outside who are entitled to an independent expert opinion regarding the fairness of the balance sheet as a whole. Some accountants are reluctant to undertake a restricted audit, which can end only in a qualified certificate, believing that such service cannot in the long run be beneficial to borrowers.

In order to certify a balance sheet without reservations as to inventory, the accountant has to satisfy himself that the quantities on hand and the

(Continued on page 24)

* A reprint of an editorial which appeared in the December, 1928 Bulletin of the Robert Morris Associates. See "Audits and Bank Credit" on page 18.

Preparing Canadian Income Tax Returns

By JOHN J. CORDNER

(New York Office)

As we are called upon frequently to prepare Canadian income tax returns of Canadian corporations and of United States corporations doing business in Canada it is hoped that this article may facilitate the preparation of such returns by presenting as simply as possible the divergencies and similarities of Canadian income tax law and practice with our own.

No attempt will be made to present more than the rudimentary principles necessary for the preparation of an ordinary corporation return without unusual features. Indeed, anything more ambitious would be exceptionally difficult to accomplish without access to the regulations and rulings of the Canadian income tax authorities. The Canadian Minister of National Revenue (the administrative officer corresponding to the Secretary of the Treasury in the United States) and his predecessors have consistently opposed a policy of publication of the rulings and regulations under which the income tax law is administered. Practising accountants, lawyers and the public, with rare exceptions have no precedents to guide them in adjusting income tax difficulties. Professional and public bodies, conspicuous among which is the Dominion Association of Chartered Accountants, have long sought to remedy these conditions, but their efforts have not as yet, been crowned with success. The Dominion Association at its 1925 convention considered a proposal to institute, through its members, a clearing house of income tax information but apparently no action was taken on the matter.

Calendar and Fiscal Corporations

The Canadian corporation income tax return, though different in form, is similar in substance to our federal form 1120. There is no separate Canadian form for so-called fiscal year corporations. Corporations having a fiscal year other than the calendar year file their income tax returns and pay the tax at the same time as calendar year corporations. In the language of the law a fiscal year corporation "shall make a return and have the tax payable by it computed upon its income for its fiscal year ending within the calendar year for which the return is being made." Fiscal year corporations in Canada have thus an advantage over calendar year corporations. For instance, a corporation whose fiscal year ends on January 31 has eleven months longer to pay its income tax than a calendar year corporation. This gives our Canadian friends an additional argument for the natural business year. In the United States all domestic corporations are on the same basis. The returns must be filed and the first instalment of the tax is due not later than the fifteenth day of the third month after the close of the year, whether calendar or fiscal.

Canadian fiscal year corporations have an additional advantage over calendar year corporations every time Parliament reduces the tax rate. They escape taxation at the higher rate on income for the period intervening between the end of their fiscal year and the following December 31. If tax rates were increased the reverse would,

of course, be true. In the United States new tax rates apply to all corporations at the same time. The complicated computation of the tax of fiscal year corporations when the tax rate is changed is thus eliminated under the Canadian system, an advantage which accountants especially should appreciate.

Gross Income

Of the items of gross income shown on the Canadian return, rentals and royalties require no special comment. The other items included in the summary are discussed below:

Trading and Operating Income

It is not essential that the form set forth as Schedule 2 on page 2 of the Canadian return be strictly followed. Instead, it is customary for incorporated companies to use statements submitted by their auditors. This practice would appear to be not only acceptable to the Canadian authorities but also desirable. It would seem, therefore, that as long as the details of operations are presented so as to give the information required by the Department in a clear and logical manner, there is no question as to the form of presentation.

The corresponding schedule on the United States Federal form 1120 (Sch. A, page 2) sets no standard form for reporting cost of operations. Taxpayers may report such expenses in accordance with the systems of accounting maintained by them. Certain expenses, however, such as depreciation, depletion and repairs, if included in operating costs, must be eliminated from Schedule A and reported as separate deductions.

Interest

Interest from Dominion Victory bonds issued prior to January 1, 1919 is exempt from tax. This interest must be reported as income, however, but provision is made in the deductions summary for deduction of a like amount. Interest on all other Dominion obligations and on all provincial and municipal obligations is fully taxable. It should be noted here that interest on all United States, federal, state and municipal obligations, Federal Farm loan and joint stock land bank bonds received by United States corporate taxpayers is exempt from federal income tax. Such interest is omitted entirely from the gross income and deductions reported on the federal return, although it is reported on Schedule L for reconciliation purposes.

Other interest received is fully taxable under both Canadian and United States laws.

Dividends

Dividends received from a Canadian corporation, the profits of which are subject to Canadian income tax, are exempt from tax if received by a corporate stockholder. Dividends from foreign corporations are also exempt to corporate taxpayers, but only to the extent that they represent distributions of that part of the income of the foreign corporation which has been subject to Canadian tax. In determining the proportion of such dividends, taxable and non-taxable, in the hands of the recipient corporation, the decision of the Minister is final and conclusive. This means, of course, that the foreign dividend is allocated upon the basis of the foreign and Canadian

income reported by the foreign corporation and approved by the Department.

Income of Canadian corporations whose business and assets are carried on and located entirely outside of Canada, is exempt from Canadian income tax, but dividends received from such corporations are fully taxable.

The corresponding provisions of the United States law relating to dividends do not exactly coincide with the Canadian provisions.

The United States law permits the deduction by corporate taxpayers of dividends received from domestic corporations with the following exceptions:

Dividends received from a domestic corporation, 80 per cent. or more of whose gross income for the three-year period immediately preceding the close of the taxable year, was derived from sources within a possession of the United States.

Dividends received from a domestic corporation, 50 per cent. or more of whose gross income for the said period was derived from the active conduct of a trade or business within a possession of the United States.

Dividends received from domestic corporations, referred to in the above stated exceptions, are fully taxable.

Dividends received from China Trade Act corporations are fully taxable.

Dividends received by corporate stockholders in the United States from foreign corporations are either fully taxable or fully exempt. If more than 50 per cent. of the gross income of the foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of the dividend, was derived from sources within the United

States, the dividend is exempt to the stockholder. If it does not meet this condition the dividend is fully taxable.

It will be apparent that the same principle has governed the exemption or taxability of dividends under both the Canadian and United States law. That is, that corporate income taxed before distribution should not be taxed again after distribution. In the United States, it is true, this principle is rather broadly observed, but in Canada it is precisely applied.

Exempt dividends must be reported as income on both Canadian and United States returns, but a like amount is included in the deductions.

Interest and carrying charges paid on indebtedness incurred to purchase or hold securities, the *interest or dividends* from which are exempt, are not allowable deductions under the Canadian law. In the United States law this provision is restricted to obligations or securities, with certain exceptions, the *interest* upon which is wholly exempt from taxation. Stocks are apparently excluded by this provision in the United States law as exempt dividends are not mentioned.

Stock Dividends

No distinction is made under the Canadian law between stock dividends and cash dividends. Therefore, stock dividends are taxable in Canada to the same extent as cash dividends. In the United States the Constitution prevents the taxation of stock dividends as income. In Canada there is no such barrier.

Profits from Speculation

The Canadian law exempts from income tax, profits from speculation outside the ordinary course of the tax-

payer's business. However, this provision is only of nominal benefit to corporations which cannot legally engage in any activity not authorized by their charter. If the charter authorizes speculation it must be considered part of the taxpayer's business. The United States law taxes all profits and gain whether acquired legally or illegally.

Capital Gains and Losses

It has been held that capital accretions are not income and therefore not subject to income tax. It may be assumed on this theory that capital losses are not deductible. However, an exception sometimes occurs in the case of automobiles and trucks where depreciation has been insufficient to cover losses sustained upon disposal. Capital gains are taxable and capital losses are deductible under the United States Income Tax laws.

Uncompleted Contracts

The Canadian procedure in the case of contracts not completed within one accounting period is the percentage of completion method. The final determination of the profits allocated to each period during the running of the contract rests with the Minister.

In practice, the effect of this policy is that if the taxpayer has used a fair and sound basis of allocation of the profit it will be accepted without question by the Department.

The United States regulations on the other hand allow the taxpayer to choose one of several methods for reporting profits on long-term contracts. If the method of accounting regularly employed by the taxpayer clearly reflects the income this basis will be accepted for income tax purposes. Other-

wise, the taxpayer may use one of the following alternatives: either the percentage of completion method or the basis of reporting all of the income from the contract in its year of completion.

Insurance Proceeds

The proceeds of life insurance policies received by corporate beneficiaries upon the death of the insured are exempt from income tax under both Canadian and United States laws.

Deductions and Exemptions

No disbursements or expenses are allowed as deductions under the Canadian law unless they are wholly, exclusively and necessarily laid out or expended for the purpose of earning income.

The deductions allowed under the United States law include all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, and losses by fire, storm or other casualty not compensated for by insurance or otherwise. Capital losses are deductible under the United States law but not under the Canadian law.

Deductions allowed under Canadian law, which call for some explanation, are as follows:

Interest on Borrowed Money

As previously stated, interest paid on indebtedness incurred to carry tax exempt securities is not deductible under the Canadian law. Neither is it deductible on the federal return with a few specified exceptions.

The Canadian Income Tax law authorizes the Minister to disallow interest at a rate in excess of what he considers reasonable, notwithstanding that

a higher rate may have been paid by the taxpayer. In no case shall he allow a rate of interest higher than that stipulated in the obligation under which the interest is paid.

The United States law has no similar restriction. All interest is deductible, with the exception stated above.

Depreciation

The Minister has final authority in determining what is a reasonable amount of depreciation on depreciable assets, which may be taken as a deduction on Canadian returns. In practice, the rates usually allowed are:

- 2 per cent. on cost of reinforced concrete buildings.
- 2½ per cent. on cost of brick or stone buildings.
- 5 per cent. on cost of wooden buildings.
- 5 to 10 per cent. on cost of machinery.
- 10 per cent. on cost of office furniture and equipment.
- 25 per cent. on cost of automobiles for first year.
- 15 per cent. on cost of automobiles for second year.
- 10 per cent. on cost of automobiles for third and subsequent years.

Higher rates may be allowed on automobiles and motor trucks, if evidence is produced to justify such rates.

The United States law permits a reasonable allowance for the exhaustion, wear and tear of property used in a trade or business, including a reasonable allowance for obsolescence. There are no stipulated rates, but each taxpayer is required to submit satisfactory evidence that the deduction is reasonable if called upon by the Bureau to do so. It is understood that efforts are being made by the Treasury Department, with the co-operation of trade associations, to establish a

scale of maximum and minimum rates for various industries.

Depletion

The deductions for depletion allowed by the Minister to Canadian taxpayers are:

Gold and silver mines	50 per cent. of net income
Copper mines ...	25 per cent. of net income
Canadian producing oil companies	25 per cent. of net income
Foreign producing oil companies	10 per cent. of net income
Consolidated Mining & Smelting Co., Ltd.	25 per cent. of net income

The minimum depletion allowance for oil and gas wells authorized under the Federal Revenue Act of 1928 is 27½ per cent. of the gross income from the property during the taxable year, but such allowance must not exceed 50 per cent. of the taxpayer's net income before deduction for depletion.

In the case of mines discovered after February 28, 1913, the basis for depletion for United States taxpayers is the discovery value or the fair market value thirty days thereafter, but depletion computed on this basis shall not exceed 50 per cent. of the net income of the taxpayer before deduction for depletion.

The basis for mines acquired by United States taxpayers prior to March 1, 1913, is cost or fair market value on March 1, 1913, whichever is greater.

The depletion deduction for any year is found by the following formula:

Cost, March 1, 1913 value or discovery value divided by the estimated number of units (tons, barrels, cubic feet, etc.) con-

tained in the property at the basic date multiplied by number of units extracted during the taxable period.

In no case shall the depletion allowed on oil or gas wells and mines be less than the amount computed upon the basis of cost or March 1, 1913, value.

Taxes

Income taxes and foreign taxes taken as a credit are not allowed as deductions either on United States or Canadian income tax returns. Taxes paid under the Special War Revenue Act of 1915, are not deductible by Canadian banks, trust and loan companies or insurance companies. Other corporations are not affected by this law. Taxes assessed for local benefits or improvements are not deductible either by United States (with one exception) or Canadian taxpayers. All other taxes are deductible under both laws.

Bad Debts

The Canadian law allows the deduction of bad debts actually ascertained to be worthless and written off during the year. United States taxpayers may elect to deduct bad debts actually determined to be worthless in whole or in part and written off during the year, or to deduct a reasonable addition to a reserve for bad debts. Such election when made, however, binds the taxpayer for future years.

Auditor's Report and Alternative Schedules

The *unabridged* report of the corporation's auditor with certified financial statements in duplicate, including assets and liabilities, trading or operating and profit and loss statements for the accounting period covered by the return must be attached to the re-

turn filed by every Canadian corporate taxpayer.

Where no audit has been made a statement to that effect must be attached to the return and in such case Schedule 7 (statement of assets and liabilities at the close of the period) and Schedule 8 (undivided profits and surplus account) on page four of the Canadian return, must be completed.

Computation of the Tax

From net income reported on Canadian corporation returns is deducted the general exemption of \$2,000, which is allowed to all corporations subject to the Canadian income tax.

The United States law allows a credit of \$3,000 but this is restricted to domestic corporations having net incomes of \$25,000 or less.

The rate of Canadian income tax payable by corporations is 8.1 per cent. as compared with the 12 per cent. rate imposed by the United States.

Credits Against the Tax

The credit for the amount paid under Part I, Special War Revenue Act, 1915, shown as Item 15a, page 4 of the Canadian return, affects only trust and loan companies and certain classes of insurance companies. There is no similar federal tax in the United States.

The credit for foreign income taxes shown on the Canadian form as Item 15b is allowed under both Canadian and United States laws but under different conditions.

In the United States this credit is allowed to domestic corporations only, but its allowance is not dependent on whether or not the particular foreign country reciprocates by allowing a similar credit to its citizens or cor-

porations, also under certain conditions a domestic corporation may take credit for foreign taxes paid by its foreign subsidiary.

In Canada the credit is allowed to all taxpayers including foreign corporations. If the taxes are paid to Great Britain or any of its self-governing colonies or dependencies the credit within the limitation explained below is unrestricted. If the tax is paid to a foreign country, however, it will be allowed as a credit only if the foreign country has a reciprocating provision.

In both the United States and Canada the credit shall not exceed the amount of tax on foreign income computed at the domestic rates.

Date of Filing Return and Payment of the Tax

Canadian income tax returns must be filed not later than April 30 in each year accompanied by payment of at least one-quarter of the tax.

United States income tax returns must be filed not later than March 15 in each year if the taxpayer reports on a calendar year basis and on the 15th day of the third month after the close of the fiscal year if the taxpayer reports on that basis. In every case payment of at least one-quarter of the tax must accompany the return.

In both Canada and the United States, taxpayers may elect to pay the tax in full upon filing the return, or to pay the tax in four instalments. In the latter case the balance of the Canadian tax is payable in three equal bi-monthly instalments due June 30, August 31 and October 31. Interest must be paid at 6 per cent. per annum from April 30 to the due date of the

instalments and at 10 per cent. per annum if default is then made.

The balance of the United States income tax is payable in three equal quarterly instalments, due on the 15th day of the third, sixth and ninth months after the due date prescribed for payment of the tax. No interest is charged on the instalments if paid when due.

"Personal" and "Family" Corporations

These are two features of the Canadian income tax law which are absent from the United States law, brought about by the designation of two special classes of corporations—"Personal" and "Family." The former is treated as a partnership for tax purposes and the latter has the option of being treated either as a partnership or a corporation.

A personal corporation is a corporation controlled by a Canadian resident and his wife or a member of his family, or by any combination of them, or by any other person or corporation on their behalf, the gross income of which is, to the extent of at least one-quarter thereof derived from the ownership of or trading or dealing in securities or the lending of money or from rents, annuities, royalties, interest or dividends, or from an interest in any estate or trust.

A family corporation is a corporation (other than a personal corporation) seventy-five per cent. of the stock of which is owned by members of one family, one or more of whom are active in the business, or a corporation, eighty per cent. of the stock of which is owned by persons active in the business and their families.

To be treated as a partnership the

secretary or other officer of a family corporation must send notice of the exercise of the election to the Minister and attach to such notice a certified copy of the resolution to that effect.

Foreign Corporations

Under the income tax laws of the United States and Canada foreign corporations are taxable only on their income from sources within the taxing countries.

The methods of allocating income and expenses which are not capable of exact segregation to sources within and without the United States are described in detail in Articles 328 and 329 of Regulations 69 of the Commissioner of Internal Revenue.

The Canadian regulations are not published but the law provides that a proportionate part of the ultimate profits from the sale outside Canada of anything produced or manufactured within Canada and exported without prior sale shall be subject to Canadian income tax.

Also any non-resident person (including corporation) soliciting orders or sales in Canada through an agent or employee whether the transaction is completed wholly or partly within or without Canada, or any non-resident person who lets or leases anything used in Canada or who receives a royalty or other similar payment for anything used or sold in Canada shall be subject to tax on the proportion of such income allocated to sources within Canada.

In all cases the Minister shall have full discretion as to the matter of determining the proportionate part of the income allocated to Canada.

Intercompany Transactions

Both the Canadian and United States laws provide remedies against any attempt to reduce or eliminate profits through the adjustment of purchase or sales prices between affiliated corporations or taxpayers. The Canadian law provides that

Where any corporation carrying on business in Canada purchases any commodity from a parent, subsidiary, or associated corporation at a price in excess of the fair market price or where it sells any commodity to such a corporation at a price less than the fair market price, the Minister may, for the purpose of determining the income of such corporation, determine the fair price at which such purchase or sale shall be taken into the accounts of such corporation.

The corresponding provision of the United States law authorizes the Commissioner to reallocate gross income or deductions between businesses related by common ownership or control, in order that the income of each may be properly reflected.

Consolidated Returns

The Canadian law contains no reference to consolidated returns. Consolidated returns may be filed by affiliated corporations, however, and a statement of the facts regarding stock ownership, percentage of control, etc., submitted to the Commissioner of Taxation. The Commissioner will usually permit the filing of consolidated returns if the ownership is 90 or more per cent. identical. However, the filing of consolidated returns is a matter of privilege accorded the taxpayers and not a matter of right. Where corporations have been permitted to file consolidated returns they are bound to file on this basis for subsequent years unless some new cir-

cumstance arises to cause the Department to change its ruling.

United States affiliated corporations had the election under the law to file separate or consolidated returns for the year 1926. This election bound them for subsequent years. However, under the Revenue Act of 1928 they again have the right to elect to file consolidated or separate returns for 1929 and subsequent years.

For the year 1928 affiliated corporations are entitled to file consolidated returns if one corporation owns at least 95 per cent. of the voting stock of the other or others, or if at least 95 per cent. of the voting stock of two or more corporations is held by the same interests.

For 1929 and subsequent years corporations may file consolidated returns only if they form an "Affiliated Group." The affiliation requirement (excepting the parent corporation) is ownership of at least 95 per cent of the voting stock by another corporation or other corporations within the group.

Net Losses

There is an important provision in the United States law which permits the carrying forward of the net loss reported by the taxpayer in one year to the two next succeeding years, when it may be taken as a deduction to the extent of the net income of the said years.

The Canadian law contains no similar provision.

Suggestions for Preparing Canadian Returns

In preparing Canadian corporation income tax returns, just as is the case in preparing United States Federal returns, it is important to see that every

item and schedule is properly "tied up" and coordinated with the other parts of the return. The Canadian return must also be reconciled (on the working papers at least) with the auditor's report, if one is submitted. The cost of land, buildings, machinery, etc., and the amounts reserved for depreciation as shown by schedule 4 (f) on page 3 of the return should agree with the corresponding items in the balance sheet at the close of the year. If a reconciliation of the taxable net income with the book net income is not submitted with the return it should be available in the working papers and the same remark applies to changes in surplus. A return should not be filed with any "loose ends" and the time spent in cross checking and coordinating the various parts of the return is likely to save the client considerable trouble and expense in the future.

On November 15th Mr. Keast, at a meeting of the Pacific Coast Conference of the National Association of Cost Accountants held at San Francisco, read a paper on "Budgets: Their Organization and Administration."

The November issue of *The American Accountant*, in an article entitled "Inventory Verification to be Studied by Survey Committee," incorporates a description by Mr. Lee H. White of the New York uptown office of the actual steps that should be taken in maintaining a control of inventory and in verifying it.

On December 18th Mr. Staub addressed the Syracuse Chapter of the National Association of Cost Accountants on the Revenue Act of 1928.

The Value of Bank Auditing

By GEORGE W. NORRIS

Governor, Federal Reserve Bank of Philadelphia

Note: This address, delivered at the National Convention of the Associated Conferences of Bank Auditors and Controllers recently held in Philadelphia, is of especial interest because it emphasizes the importance of an effective internal audit system in addition to periodical examinations by outside auditors.

The subject of the address that I have been asked to make this afternoon, as it appears on your convention program, is rather lengthy. I take it, however, that what your Committee had in mind was to get me to express an opinion as to the value of bank auditing, and, if I thought well of it, to explain where and why it was of value.

There are many bank officers who do not believe in spending much money on auditing work. Their argument is that banks are periodically examined by supervising authorities—either the Comptroller of the Currency, the State Commissioner of Banking, a local Clearing House, or a Federal Reserve Bank—and that in addition to these official examinations, practically every bank has at least an annual audit by its own directors, or by public accountants employed for the purpose. For errors or omissions not detectable by any of these agencies, they claim that it is cheaper to insure than to hunt.

If a banking business is to be run like a factory, looking for production at the least possible cost, there is much to be said for this view. If, however, banking is more of a profession than a business—if the banker owes it to his community to set a standard—if a bank is the last place in the world where carelessness or dishonesty is to be tolerated, then the need of an auditing system is imperative in any institution of any size. The examinations of supervising author-

ities are made primarily for the purpose of determining the solvency of the institution examined. They cannot be expected to do very much more than determine the condition of a bank at a given time, and they do not always do even this. There is reference in the last number of your "National Auditgram" to the Indiana case, where a defalcation remained undetected for over twenty years, and you may have noticed in the newspapers within the last week reference to a case in New Jersey where embezzlements which grew to over \$160,000 fifteen years ago had remained undetected for a period of thirty-five years. An annual audit may find the assets strictly in accordance with the statement, and the deposits and other liabilities correctly shown, but what assurance is there that the bank is getting 100 per cent of the earnings; that no officer or clerk is profiting in the making of loans or in the purchase or sale of securities; or that improper or illegal use has not been made of the bank's funds between audits?

In the Federal Reserve Bank of Philadelphia we not only have an Auditing Department that is on the job every business day in the year, but we have at the head of it a Comptroller who is selected by the Board of Directors. His reports are made to the Board, the Board fixes his salary, and he is responsible to no one but the Board. He is at perfect liberty to criticize any officer in the Bank. The

creation of this office was originally due to a member of the first Board of Directors of the Bank, a business man who had had experience in public life, and who realized how severely men were sometimes criticised for not knowing things which they apparently ought to have known, notwithstanding the fact that it was practically impossible that they should know them. I recall that after he had sat on the Board for a few months, and had heard long lists of discounts read off, and masses of figures quoted, he said one day "These are things that I do not know and cannot know anything about. I think that most of my fellow Directors are in the same position. If we are to be held responsible for the operation of this bank, we should have in it a man who will be our eyes and ears, watching things for us, and reporting to us anything that we ought to know." The other members of the Board agreed with him, and the result was the creation of the office of Comptroller. When the present incumbent of that office was being considered for appointment, following the resignation of his predecessor, I had a conversation with him, in which I asked him what he would do in various hypothetical cases. One of these cases assumed that he had discovered some dangerous or improper practice in the bank, had called it to my attention, and that I had failed or refused to do anything about it. When he unhesitatingly told me that in these circumstances he would report the whole matter to the Board, I was satisfied that he had the proper idea of a Comptroller's duties.

From what I have just said, you may guess that I am entirely opposed to the practice of having some audit-

ing done or some verifications made by officers or employees who also have duties of an operating nature to perform. In some small institutions that may be necessary, and it is of course better than no auditing at all, but in an institution of any size the auditing force should give its undivided attention to auditing. Without centralized responsibility, the work is apt to be done in a careless or irregular manner. Moreover, if the auditor finds unsound practices in any department of the bank, his suggestions for improvement, made to the head of that department, are apt to be better received and more likely to be accepted, if he is occupying an entirely detached position, having no connection with any other operating department. The manager of one department does not, as a rule, like to be criticised by the manager of another department.

In my opening sentences, alluded to the disposition of some bank officers to let losses occur, and then recover them from an insurance company. Even though this may be the cheapest way—which I do not admit—it is a way which I should be very much ashamed to follow. I would infinitely rather prevent a loss than have a loss occur, and then recover from an insurance company. That brings me to what it seems is the vital difference between a continuous auditing system and a periodic examining system. The latter detects a loss. The former prevents a loss. Moreover, the proper installation of audit controls, periodic departmental verifications, and the continual scrutiny of an auditor, tend to keep the operating force on its toes, and to bring about a continual betterment of system, with increased effi-

(Continued on page 19)

Test Quizzer in Income Tax Law*

By L. J. OUTLAW,

Training Section

Items in the following list have been assembled for the purpose of affording readers of the INTERNAL REVENUE NEWS an opportunity to test their knowledge of the correct application of the income tax law to items of income. Determination of the taxable status of some of the items will be comparatively easy. However, a correct allocation of some of the items may necessitate a study of the current decisions and rulings covering the income tax laws.

Place an X in the appropriate column opposite each item to indicate whether it is taxable or nontaxable in the current year under the revenue act of 1928 as regards an individual who is a citizen of the United States (not including a citizen of the class referred to in sections 251, 252, and 261) and computes his income on the basis of cash receipts and disbursements.

After completing the test, compare your solutions with the answers, which are set forth on page 24 of this issue.

Items of income	Tax- able	Non- tax- able	Items of income	Tax- able	Non- tax- able
1. Gifts			20. Public-school teachers' salaries		
2. Alimony			21. Profit from sale of municipal bonds		
3. Bonuses			22. Dividends on stock of foreign corporation		
4. Legacies			23. Retired pay to former industrial employees ..		
5. Notary fees			24. Profit, from city, county, or State contracts		
6. Gambling gains			25. Recovery of bad debts deducted in prior years		
7. City jury fees			26. Salaries credited to an employee but not received		
8. Director's fees			27. Base pay of United States Army or Navy officer on duty in the United States		
9. Receiver's fees			28. Compensation to employee of a city, county, or State		
10. Executor's fees			29. Damages recovered for personal injuries sustained		
11. World War compensation payments			30. Profit from property condemned under power of eminent domain		
12. Tax paid at source on tax-free covenant bonds...			31. Distribution from corporate surplus earned prior to Mar. 1, 1913.		
13. Federal jury fees.....					
14. Earnings of dependent minor children					
15. Municipal bond interest..					
16. Dividends from national banks					
17. Interest on income-tax refunds					
18. Recovery of prior year's losses					
19. Gains from illegal transactions					

* Reprinted from INTERNAL REVENUE NEWS, which is issued monthly by the Bureau of Internal Revenue at Washington.

Items of income	Tax-able	Non-tax-able	Items of income	Tax-able	Non-tax-able
32. Income to a beneficiary from a revocable trust created by another.....			earnings by an officer stockholder prior to formal authorization...		
33. Insurance policy proceeds covering death of business partner			38. Compensation for seven months' services rendered while residing in a foreign country during the taxable year...		
34. Distribution from corporate surplus paid in after Mar. 1, 1913.....			39. Damages recovered for casualty loss of personal property in excess of the basis for the property		
35. Monetary prizes or awards in recognition of valor, genius, or ability.....			40. Damages recovered for casualty loss of business property in excess of the basis for the property		
36. Dividend paid in stock by a parent corporation with stock of its subsidiary					
37. Withdrawals of corporate					

To the Junior Staff

Editor's Note: This message to the juniors on our staff comes from a senior at the New York office, who speaks from experience and observation, and because of an interest in the welfare and advancement of juniors. To avoid any appearance of "preaching" he asked that his name be withheld.

The student entering public accounting should realize that he is taught theoretical knowledge along lines that are best suited to bring to the surface the "meat" of the subject. We cannot have practice without theory any more than we can have a house without a foundation. Therefore the necessity of developing a dependable foundation by an arduous study of our text books. Since theory underlies practice, practice must be the application of theory. Without one we cannot have the other, and both must receive our studious attention and sound consideration.

Nicholas Murray Butler points out the disposition of men generally in a recent address as follows:

The vast majority of men go through life as a coal miner goes to his daily task. When the appointed hour comes, they descend into the pit, find their way along the

underground tunnel and go to work by artificial light at the point in the seam where they left off the day before. When the fixed number of hours have passed, they find their way back to the shaft, are raised again to the open air to eat and to sleep in order to be ready once more for the daily round. What their work means to the world at large and to civilization is wholly beyond their ken. It never occurs to them to ask how there came to be coal, why it is found where it is, how it is to be used when mined, and what part it plays in keeping the wheels of industry and commerce turning.

And such, it may be feared, is the case with many men in the accounting profession. It never occurs to them to ask the question "why?" They are of the opinion that if they perform a given task in a mechanical manner, or do it according to what has been done before, they have fulfilled their duties in a satisfactory manner. While this

may be all that the immediate assignment consists of, it is obvious that it is not all that is required for individual development.

Again quoting from Doctor Butler's address:

Institutions can only be preserved, protected, still more perfectly developed, by individual insight, individual effort and individual leadership.

The duties of the staff accountant are far more involved than can be readily appreciated. He must not alone be thoroughly versed in the science of accounts, methods of auditing, principles and practice of taxation, and commercial law, but he must also be somewhat of a psychologist and a diplomat to complete his professional bearing.

Unfortunately all of us are not born with pleasing personalities, tact and the power to think quickly and accurately. But if ambition and the will to advance is a part of us we may by hard study and work overcome our deficiencies. In every walk and endeavor of life tactfulness, diplomacy and courtesy in our dealings with one another are most important.

Colonel Montgomery briefly sets forth certain qualities which go to make up what he terms "professional bearing." He states:

This expression (professional bearing) is an elusive term comprising such matters as neat and unobtrusive wearing apparel, and dignified demeanor. It means courtesy in dealing with everyone, but excessive familiarity with none. It also includes the exercise of the greatest discretion in remarks made relative to the affairs of clients.

The firm by whom the staff accountant is employed expects him to perform his work with the greatest degree of accuracy within the shortest possible time that is consistent with

the engagement. The accountant must constantly bear in mind that the client wants the work finished as quickly as possible because he wants our report, and also wishes a minimum charge for it, and that we are desirous of rendering just such service. In performing our work accuracy must never be sacrificed for speed, but with practice both may be accomplished in a satisfactory manner. Clients are prone to regard accountants as the acme of perfection, and any error that may be made is likely to break down the respect and confidence which we enjoy. In this connection, it should be uppermost in the staff accountant's mind that he is the representative of his employer, and as such acts as agent. The client judges the accounting firm, and no doubt the whole profession, not only by the principals whom he meets, but especially by the conduct and work of each member of the staff with whom he comes in contact, or who come under his observation or that of his organization.

It follows, therefore, that great care must be exercised while in clients' offices. It is not good taste to become familiar with the client or members of his organization. The results obtained by the accountant may be enhanced in value, and the pursuing of results made easier, if the accountant is able to put himself in the place of those for whom his work is performed.

Quoting again from Colonel Montgomery's work on Auditing:

The auditor need not stultify himself by failure to criticize. As a matter of fact, an honest staff resents gratuitous commendation if they know it is not deserved. All they want is a square deal. In practically all cases the methods in force were initiated by the client himself or by the predecessors of the present staff. They are simply follow-

ing precedent or instructions and should not be personally blamed for unsatisfactory methods or results.

Let the auditor proclaim his gospel of helpfulness and ask for co-operation in the interest of the staff and in that of the client. Let him demonstrate quietly that he knows more than they do, but let it be done unobtrusively. Show them that failure to be up to date is detrimental to success, and that modern methods must justify themselves. Get them interested and ask their help in preparing an unbiased report on actual conditions, and obtain their approval of the suggested changes. If this spirit prevails throughout the audit the client will be benefited, the office staff will be enthusiastic over the innovation, and the auditor will receive a unanimous invitation to come again.

It may be observed that in line with the above quotation a knowledge of psychology and the ability to function as a diplomat are essential. In many phases of the accountant's work he will find that the client looks to him as a patient does to a doctor, seeking advice, condolence and what not. Situations of such character are most difficult to handle, and only thoughtful consideration can prompt the procedure. It is well to remember that a good sympathetic listener never hurts anyone, but on the contrary advances his own interests as well as those of the firm which he represents.

It is particularly important that junior men refrain from discussing with the client phases of his work, economics, or anything else. It has been jestingly said that the weather is a safe and appropriate subject for junior men to discuss with the client.

The relation of the junior and senior is not always given the serious consideration it deserves. It must be borne in mind that the responsibility for the success of an engagement rests primarily on the shoulders of the man in charge, and if he does not have able

and efficient assistance his work will be anything but a success. No matter how closely the junior may be supervised his work can not be gone over in detail, and the amount of thought that he gives to the task cannot be seen but only judged by the results. At this point let it be understood that if the senior delegates work to a junior man not within his sphere, the senior alone is responsible for failure and not the junior.

If while working on an assignment as a junior, you do not thoroughly understand the operations of the client's records or the facts relative to any task which may be before him, seek the assistance of the senior and ask for an explanation. Be sure that you understand fully, and do not say you do when there is any doubt in your mind. Pound it until you know every angle, study it until it is made a permanent record in your mind. By so doing you are learning, and also rendering studious and conscientious service. Never take "no" for an answer unless you know all the reasons for the "no" and are thoroughly convinced in your own mind that "no" is the answer and can be nothing else.

The greatest sources of knowledge, and the most effective weapons which an auditor may use to successfully complete his work may be termed "observation" and "inquisition." Ask yourself the question "why?" and then seek an answer. Keep that question in mind and apply it to everything you do.

When the work is finished on a given assignment and you can leave a client's office with the conviction of having gained his confidence, when you have performed the work with utmost speed

(Continued on page 24)

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

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FOREIGN

PARIS, FRANCE	3 Rue des Italiens
BERLIN, GERMANY	56 Unter den Linden
LONDON, ENGLAND	58 Coleman Street

London Office

Effective January 1, 1929, we have established an office in London. It is located in Trafalgar House, Charing Cross, London, S.W., and is in direct charge of Mr. V. L. Norris.

Our European partner, Mr. A. T. Davies, who is located at Paris, will have charge of all three of our European offices.

Tax matters abroad are becoming of increasing importance to our clients doing business there. This is especially true of France. We are keeping in touch with the situation for the purpose of rendering all possible assistance.

The opening of our own office in London necessarily means a termination of our agency arrangement with Messrs. Jackson, Pixley & Co., who have represented us in London for a period of almost twenty years and for whom, conversely, we have handled various American engagements. Colonel Pixley, the head of that firm, is a past president of the Institute of Chartered Accountants of England and Wales and is still remembered among American Accountants for his visit to this country in 1904, when he attended the Congress of Accountants held in St. Louis, as a representative of the Institute and read an important paper on "The Duties of Professional Accountants in Connection with Invested Capital Both Prior to and Subsequent to the Investment." It is with much regret that we sever the long continued agency arrangement. This will not in any way, however, diminish our high regard for the members of the firm of Messrs. Jackson, Pixley & Co., and we shall always retain a keen appreciation of the many courtesies enjoyed at their hands.

Montgomery's Income Tax Procedure

Two new volumes appear this month in the Income Tax Procedure series by Colonel Montgomery, the first volume of which appeared in 1917. One volume is a 1929 supplement to Volume I of the 1927 edition of *Income Tax Procedure*. The other volume is entitled *Federal Tax Practice*.

The 1927 edition of *Income Tax Procedure* (Volume I) was a comprehensive statement of the law and its interpretation at that time, and the 1929 supplement is a commentary upon the output of Congress, the courts, the Board of Tax Appeals, and the Treasury in the intervening two years. Taken together they present a complete picture of the substantive provisions of the law as it stands today.

Federal Tax Practice deals with the machinery of tax administration and is "a comprehensive commentary upon the practice in such cases from the first hearing before the Treasury to the final argument before a court of last resort. For, even in its initial stages in the Treasury, a case should be considered with a view to its ultimate presentation in court; and conversely, an intelligent presentation of a tax case to the Board or the courts requires a thorough understanding of Treasury procedure." This volume is intended primarily for the use of lawyers and accountants and will be a valuable guide to the technical procedure which has been developed in federal tax practice.

Every member of our organization should familiarize himself with the contents of these books, particularly of the 1929 supplement, and will find himself well repaid for the time so expended.

Audits and Bank Credit

In the September, 1928, issue of the L. R. B. & M. Journal, we called attention to the recognition given in an advertisement by the Fidelity Trust Company of New York in *The New York Times* to the constructive value of the service rendered by the public accountant to the business world.

A recognition of the value to the financial world of the analytical aspect of the work of the public accountant—audits and certifications based thereon—is contained in an editorial entitled "The Certified Audit," which appeared in the December, 1928, Bulletin of the Robert Morris Associates. Because of the interest which the members of our organization would naturally have in reading the opinion of the bank credit man on this subject, we reprint the editorial on another page of this issue. Robert Morris Associates is a national organization of bank credit executives and has rendered valuable service by striving for the presentation of clear and informative financial statements by borrowers. It has constantly stressed the importance of such statements being certified by public accountants.

The Secretary-Treasurer of the Robert Morris Associates, Mr. Alexander Wall, has devoted a great deal of study to the significance of the ratios to each other of various elements in the financial statement. A book by Mr. Wall and Mr. Raymond W. Duning, the latter assistant secretary of the organization, entitled "Ratio Analysis of Financial Statements," published during 1928 by Harpers' is an important contribution to the rapidly developing literature of the business and financial world. It

will repay careful reading by each member of our organization.

For some years past the Robert Morris Associates has had a committee on cooperation with public accountants, the chairman being Mr. H. E. Whitney, Assistant Vice President of the Bankers Trust Company of New York. Through its active cooperation with the committee of the American Institute of Accountants on cooperation with bankers, worthwhile progress has been made in interpreting to each the viewpoint of the other and in increasing the usefulness to the banker of the service rendered by the public accountant.

Philadelphia Office Function

From time to time our Philadelphia office occasionally has functions of one kind or another of interest to the entire organization there. The Editor has a very pleasant recollection of the delightful occasion now almost two years ago when a luncheon was given in the Philadelphia office one Saturday to celebrate the 40th anniversary of Mr. T. Edward Ross' entrance into the profession of accountancy. A comparatively recent outdoor event was the golf tournament of the Bunkers Club of which an account appeared in the November, 1928, issue of the L. R. B. & M. JOURNAL.

Below is an account of a dinner recently held by the staff of the Philadelphia office which will doubtless be of interest to the other offices.

The well-worn winter excuse of the married accountant—"Sorry, but I have to work late, dear, and won't be home to dinner" had some justification on the evening of Thursday, November 22d, for that was the date on which ninety-six of L. R. B. & M.-Philadelphia assembled for a get-together

dinner at a well-known eating palace near the office.

Of course, we sang during the meal, admirably lead (the singing) by one of our men and ably accompanied by our own orchestra. The entertainment was provided by various members of the staff and office force, the feature events of the evening being at the expense of our bride and groom-to-be, who took everything good-naturedly (but didn't run away with the spoons). The head waiter announced that after clearing the eating tools away, he was three spoons shy, and naturally we all looked toward the prospective housekeepers, and to the astonishment of the groom-to-be, he produced them from his own coat pocket.

We had vocal and instrumental solos, a little magic selections by the male quartette, and recitations. There were also brief talks by the partners, Mr. Edward Ross acting as master of ceremonies, and a resumé of the work of our summer school by the "Dean," who also quizzed the "Alumni" and the replies provided a little more entertainment for everyone.

Plans are being made for bigger and better affairs next spring and fall, and, in fact, we expect them to become semi-annual occasions of recreation and good-fellowship.

The Value of Bank Auditing

(Continued from page 12)

ciency and reduced expense. In addition to all these advantages, there is the very great further advantage that the executive officers do not need to devote much of their time or thought to the details of operation, and can concentrate upon the broader questions of policy, which should be their first concern.

At a meeting of the Chicago Chapter of the National Association of Cost Accountants, held on November 15th at the Hamilton Club, Mr. Fitzgerald, manager of our Detroit office, spoke on "What the General Manager Wants from the Cost Accountant."

The 16th Annual Conference of the New England State Tax Officials' Association

By GEORGE W. ELWELL

(Boston Office)

The 16th Annual Conference of the New England State Tax Officials' Association, which was held at Bridgeport, Conn., on November 22 and 23, 1928, gave very little attention to questions of federal taxation. Even the general opposition to the federal estate tax discussed at more or less length at some of the previous conferences, was not considered either officially or indirectly at this meeting.

Probably the outstanding features of the conference were the report on the system employed by the city of Bridgeport in the administration of the local property tax, and the discussion of the Indiana plan for centralized control of local finances.

Mr. William F. Connelly of the tax commission at Bridgeport described the block system by which all real estate in that city is classified and subjected to a uniform rate depending upon the location and other factors contributing to the classification. This is a method which has been tried in a few other cities, notably Cambridge, Massachusetts and New Britain, Connecticut, and in general appears to be more satisfactory, both from the standpoint of equality and in the amount of revenue produced, than the usual haphazard system. The new method calls for a certain increase in initial outlay and a study of one or two years under the supervision of experts, preferably from outside the municipality, supplemented by numerous conferences at which a full and frank discussion is contributed by tax-

payers of all classes. The degree of success to be obtained depends considerably upon the personnel and method of approach of the experts, but the significant fact appears to be that every city thus far reporting which has attempted the system has been pleased with the results. The initial cost is expected to be offset within a few years by the reduced cost of annual administration thereafter.

The discussion of the Indiana plan disclosed certain surprising facts with reference to the amount of expense which had been saved by this plan. The plan in brief is that on the appeal of a small number of taxpayers in a particular municipality, the State Board may review the appropriations proposed by the town meeting, Board of Aldermen, or other body representing the popular vote or delegation thereof and may reduce or even eliminate certain items, despite the expressed approval thereof by the local legislative authority. Discussion of this plan indicated a general feeling that it might represent too great a departure from the principles of domestic self-government but the story told by Mr. Brown of the State Board of Taxation in Indiana made it clear that many millions of dollars had already been saved, largely through conferences between the State Board, the local authorities, and the contractors, whereby the last named were induced to abandon abnormal profits included in the original estimates, and submit revised bids which represented a fairer

division between all parties. The surprising feature of this discussion was the extent of the possibilities in the way of tax saving disclosed.

During the conference a suggestion was made by J. Frank Zoller, Esquire, General Counsel for the General Electric Company, that net income, so-called, was not a fair basis for measuring an excise or any form of tax upon a corporation, or in fact upon any business enterprise in which expenses are large and net profit is a small percentage of gross receipts. The suggestion was that net income, so-called, is not net income at all, but gross income minus certain statutory deductions, and that the result was extremely inequitable as between different classes of business. He proposed instead consideration of a gross receipts tax for business enterprises. Mr. Zoller made it plain that he did not intend to criticize the income tax as a method of deriving revenue from investments.

The discussion of tax developments by the commissioners of the various New England states disclosed little calling for special comment except in the cases of New Hampshire and Vermont. Both of these states are suffering from problems of finance brought about by the recent flood.

The indications are that the recess commission appointed by the New Hampshire legislature will approach the whole problem of revenue and structure of taxation with an open mind, and may eventually inaugurate certain experiments in forms of taxation which have not yet become commonly accepted. The suggestion is made that developments of the next twelve months in that state may be

worth watching from an academic standpoint.

The peculiar development in Vermont was the passage of a law providing for a four mill tax on the fair value of intangibles, with the statutory provision that the fair value of corporate stock should be arrived at, for tax purposes by capitalizing on a 6% basis the dividends paid by the corporation within the twelve months preceding the assessment date. To the surprise of the commissioner the Vermont court of last resort held that this statute was constitutional. It now appears unlikely that there will be any appeal to the federal courts, because the large taxpayers have figured out that this really represents a tax at a rate of $6\frac{2}{3}\%$ upon the net income from the stock, and they are inclined to accept it rather than run the risk of a more burdensome tax in case the federal courts should determine the present one invalid. The only case where this would work a hardship is where a company has paid dividends from depletion reserve which represent a return of capital. The Commissioner from Vermont intimated informally that if such a situation were called to his attention he might feel justified in ruling that such a dividend should be disregarded in the valuation of the stock. It is therefore suggested that any taxpayer having such a situation involved should make a representation of the facts to the commissioner.

The last topic on the program was covered by R. Ammi Cutter, Esquire, Assistant Attorney General of Massachusetts, on the subject of "Appeals to the Courts from Administrative Rulings in State Tax Cases. Some Considerations as to procedure." It was unfortunate that this subject came so

late in the program, when the members of the conference were thinking about train connections for home, because the address disclosed very clearly some of the most glaring defects in tax administration which now exist, all with reference to the nature of the procedure which taxpayers should take to preserve their rights, and the uncertainty regarding it which exists at many points under the statutes now in force. A great many taxpayers, accountants, and lawyers, have for some time felt the uncertainties which exist in this branch of the tax laws, and the difficulty appears to exist to a considerable degree in all jurisdictions. Owing to the small amount of time which remained after this address was concluded, the subject received less consideration than it deserved. It may be, however, that its place upon the program was cleverly designed, since it sent many of us home thinking upon a subject which had long troubled us, but upon which we would have been more or less inarticulate on short notice. It would seem that a thorough study of this problem, with a view to a clearer statement of the specific questions and their solution, would be well worth while at some time and place, by a body organized and carefully prepared in advance to examine the situation.

Enjoy thy wealth as tho' about to die,
 Yet frugal be, as though of life wert sure;
 A wise man he who both these rules obeys,
 And strikes the mean 'twixt thrift and lavishness.

An interesting article by Mr. Black, entitled "Behind the Scenes in Your Business," ran through the November and December, numbers of the magazine, *Southern California Business*.

Mr. Black points out that the ever-changing nature of the services which are demanded of the accountant is really the reason that the accountant's work is of such keen interest. The article stresses the work which an accountant is called upon to do at the present time as compared with the earlier conception of an accountant who was engaged either for the detection of fraud or for the discovery of technical errors in the books. The tremendously enlarged field for the accountant's services, such as the special reports required in new financing, is mentioned in interesting detail.

Some of the homely axioms appearing in Mr. Black's article are:

Method means common sense made automatic.

Success will be won only through exact and definite knowledge.

To plan intelligently for tomorrow you must know today the results of yesterday.

Temptation comes through opportunity.

Your own balance sheet is no proof whatever that the accounts are correct.

The successful businesses of the future will be those that improve the processes and reduce the cost of production, rid distribution of its present indefensible wastes, bring the prices of necessities of life lower and lower, shorten hours of labor and enlarge the margin of leisure, eliminate periodic depression and recurrent unemployment and limit the area of the industrial battlefield.—*Edward A. Filene*.

"Words at Random Flung"

A Plea for Shorter Sentences and Better Use of English

A letter published in the New York Times is reproduced below because the comments of the writer, Mr. Charles O. Files of Portland, Me., on the use of English are well worth the attention of accountants. Short sentences, clearly stated, help to produce a good report.

The use of long, complicated, involved sentences seems to be creeping in even to the editorial pages. A sentence that must be read two or three times in order to grasp its meaning is not, as a rule, good English. At least it is not in accord with the canons of English composition. The use of short, crisp sentences, in which the subject and predicate are not too far apart, used to be considered one of the best elements of good composition. Such sentences should not have many explanatory or modifying clauses. These long sentences remind one of Mark Twain's criticism of the German language: "An average sentence in a German newspaper is a sublime and impressive curiosity; it occupies a quarter of a column; it contains all the parts of speech—not in regular order, but mixed; it treats of fourteen or fifteen different subjects, each enclosed in a parenthesis of its own. I think that to learn to read and understand a German newspaper is a thing which must always remain an impossibility to a foreigner."

In one of our best Maine newspapers a few days ago there was a letter to the editor from which I will quote one sentence. The letter was about the unseasonable weather this Summer, and was written evidently by one who knew considerable of the subject about which he was writing: "But the record ignores the fact that to bring Summer months's averages up into the 60s, although these were the lowest known, yet, to offset the

deficiencies of the great Summer cold waves, the temperatures in between must have attained seasonal heights, even as today, particularly as the drought presented clear skies and desert-like radiation at night, with intense insolation and warmth in the daytime, rather than low daily maximums from cool, chilly, overcast skies—save during the cold wave."

The writer had several distinct ideas which he endeavored, with very poor success, to incorporate into one sentence. It is quite like trying to do several dissimilar jobs at the same time.

In Senator Bruce's article on the third term in *The Times* of July 31 there are several sentences of unusual length and lacking somewhat in lucidity. One sentence contains 117 words; another 96; others 76, 60, and several containing from 40 to 65 words. Although it is quite easy to follow the Senator's thought, it is somewhat difficult to recall the first part of the sentence as one gets toward the end, unless one goes back and reads it over again.

Generally the use of such sentences indicates a lack of clear thinking and of definite ideas. A long, complicated sentence gives the reader the impression that the writer is feeling around in search of ideas rather than expressing a definite thought. Some newspaper correspondents are acquiring the habit of using long sentences when shorter ones would be in much better taste.

The Certified Audit

(Continued from page 1)

basis of valuation, as well as computations, are substantially accurate and reasonable. The accountant will not insist upon taking stock or even supervising the stocktaking if the company has a well organized system and adequate accounting records from which he can prove the essential accuracy of the inventory quantities. Manifestly, an accountant who makes a survey of the company's products, their distribution and the materials entering into them, as a foundation for his verification of the inventory, is better prepared to complete an intelligent audit of the other assets and of the liabilities.

Bankers have confidence in a financial statement supported by an unqualified certificate evidencing an unrestricted audit. A company cannot afford to have its credit jeopardized by the suspicions that may be aroused by qualified certificates or by employing accountants whose standards permit the use of an unqualified certificate with a careless or incomplete audit.

To the Junior Staff

(Continued from page 16)

and accuracy, and have in a professional manner made a friend of the client and members of his staff, you may be assured that the result will be satisfactory to all concerned.

In conclusion, bear in mind that the good will and reputation of the firm rest in your hands, and that its progress is furthered only by the proper functioning of each member of the organization.

A Banker's Ten Rules for Success

1. Eliminate from your vocabulary the word "perfunctory."
2. Think—exercise your brain as you do your muscles.
3. The most serviceable of all assets is reputation.
4. Use your imagination.
5. Know how to bide your time and to "sit tight."
6. Be neighborly. Be a good sport. Remember you can't lift yourself by drowning others.
7. Work hard. It won't hurt you.
8. Take an active interest in public affairs.
9. Meet your fellow man frankly and fairly. You don't have to go through business armed to the teeth.
10. If you are successful, be patient, courteous and conciliatory. Avoid ostentation.—*Otto H. Kahn.*

Solution of Test Quizzer on Page 13

(By the author of the quiz)

Items 1, 2, 4, 5,¹ 7,¹ 11, 12, 15, 18,² 20,¹ 26,³ 28,⁴ 29, 31, 32, 33, 34, and 38 are not taxable in the current year.

Items 3, 6, 8, 9, 10, 13, 14, 16, 17, 19, 21, 22, 23, 24, 25, 27, 30, 35, 36, 37, 39, and 40 are subject to tax in the current year.

¹ Except in Washington, D. C.

² Offsets deduction taken in year of charge off.

³ Unless unqualifiedly subject to withdrawal by employee.

⁴ Employee's services must have been rendered in connection with the exercise of an essential governmental function.

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